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SUBJECT: LEBANON: INCREASE IN FLOUR SUBSIDIES FORCE BAKERIES TO
RETRACT FROM RAISING BREAD PRICES (ECONOMIC WEEK IN REVIEW, JUNE 23
- 29, 2008)

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BAKERIES INCREASE BREAD PRICES FOR SEVERAL HOURS, ECONOMY MINISTRY
RAISES FLOUR SUBSIDIES TWICE TO STOP INCREASE

11. (U) Following a unilateral decision by the Union of Bakeries on
June 25 to increase the price of Arabic flat bread -- without
consulting the Ministry of Economy and Trade (MOET) -- from \$1 to
\$1.3, the union retracted its decision on June 26, after the
Ministry decided to further increase its subsidy on flour. This
increase comes in addition to an increase in the subsidy announced
on June 23 by the MOET to compensate for the rise in the costs of
bread production. In light of the increase in the prices of fuel
and a number of other goods mainly through imported inflation, the
possibility of any increase in the price of bread is very sensitive,
representing an additional burden on the population, most of which
finds it hard to manage with already high prices of basic
commodities and low incomes.

12. (SBU) Before the Union of Bakeries accepted to retract its
decision, the head of the General Labor Confederation (GLC) Ghassan
Ghosn quickly called for a protest in front of the Grand Serail on
Monday, June 30, to call on the GOL to lower the price of a packet
of Arabic flat bread. GLC sources told us that the GLC will cancel
its call for a protest.

13. (SBU) Advisor to the Ministry of Economy and Trade Marwan Mikhael told us on June 27 that since August 2007 until May 2008, the flour subsidy has cost the GOL around \$30 million. From June 2008 onwards, the cost of the subsidy is estimated around \$4-5 million each month. Although Mikhael believes with the recent subsidy increase, bakeries will be barely able to cover their costs.

BUSINESS OPPORTUNITIES IN LEBANON CONFERENCE LAUNCHED, FINANCE
MINISTER WORRIED ON INVESTMENT PROSPECTS

14. (U) On June 24, the sixth edition of the Business Opportunities in Lebanon Conference was inaugurated in Beirut, combining workshops and exhibitions organized by leading economic and business magazine Lebanon Opportunities. The U.S. Commercial Service exhibited its products and began promotion for its upcoming "Made in America 2008" trade fair.

15. (U) During the opening session, Finance Minister Azour expressed fear that Lebanon will not be able to attract the investments it could because of the political stalemate, and called for the political dialogue to focus on projects and programs instead of ministerial portfolios. Azour insisted on the liberalization of the telecommunications and transportation sectors, the privatization of the national power utility Electricite du Liban (EDL), and the implementation of Paris III reform measures.

MIDDLE EAST AIRLINES EXPANDS ITS FLEET,
RECORD NET PROFIT IN 2007

16. (SBU) Lebanon's national passenger carrier Middle East Airlines
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(MEA) received this week its first new acquired Airbus 330-200 as part of its plan to expand its fleet. MEA's fleet now consists of one new A330, three leased A330 (whose lease term ends in 2009), and six A321. MEA plans to acquire six more A330 gradually until 2010 to expand its operations. MEA Chairman Hout told us that MEA recorded a net profit of more than \$60 million in 2007, stressing that the company can record profits exceeding \$70 million if the political situation remained stable.

ARAB INVESTORS CALL FOR INCREASED
ECONOMIC LIBERALIZATION IN THE REGION

17. (U) On June 20, participants at the annual Arab Businessmen and Investors Conference urged Arab countries to speed up the creation of free trade zones and the removal of trade barriers, as well as encourage further economic liberalization and implement privatization programs. The conference also called for greater agricultural investments in the region, in order to secure sufficient food supplies in the Arab world.

DONORS PLEDGE \$122 MILLION TO REBUILD
PALESTINIAN CAMP, MORE FUNDS ON THE WAY

18. (U) On June 23, the Conference on the Reconstruction and Recovery of the Nahr El Bared Palestinian refugee camp in north Lebanon was held in Vienna, during which donors pledged funds for rebuilding the camp and the surrounding areas. The total contribution announced was \$122 million; we understand this will be corrected to \$115.3 million to correct double counting mistakes. The USG pledged \$22 million to be divided as follows: \$10 million for camp reconstruction, \$6 million for the development of the areas surrounding the camp, and \$6 million to boost the Internal Security Force's presence surrounding the camp. Meanwhile, PM Siniora announced that Saudi Arabia, Qatar, Kuwait, and the United Arab Emirates had pledged to cover half of the bill for rebuilding the camp, the exact sum to be set on July 1.

CASH TRANSFERS INCREASE
BY 50 PERCENT IN 2007

¶9. (U) According to the Central Bank of Lebanon, cash electronic transfers to and from Lebanon amounted to \$1.06 billion in 2007, up by 50 percent compared to 2007. Of this, \$733.7 million were transferred electronically to Lebanon, while transfers from Lebanon amounted to \$321.4 million. The United Arab Emirates was the main source of inward transfers with \$147.5 million, while the Philippines was the number one destination of transfers from Lebanon with \$58.1 million.

ECONOMIST INTELLIGENCE UNIT RAISES
GROWTH FORECAST FOLLOWING DOHA SETTLEMENT

¶10. (U) In its latest report on Lebanon, the Economist Intelligence Unit (EIU) revised its economic growth forecast for Lebanon to 2.7 percent from -0.7 percent in 2008 and to 3.8 percent from 0.5 percent in 2009. The EIU estimated that the Doha political settlement encouraged this revision, but warned that growth is expected to remain well below potential due to political uncertainties and institutional deficiencies. The report considered that members of the upcoming coalition Cabinet are unlikely to agree on the best way to address the country's fiscal and debt challenges, which in turn would prevent the GOL from implementing its Paris III reform plan, especially privatization. The EIU also expected inflation to increase sharply in 2008 due to imported inflationary pressures.

LEBANESE BANKS ARE THE LEAST RISKY OF NON-GCC MENA ECONOMIES, AMONG
MENA'S BEST IN TERMS OF BANK VALUATION

¶11. (U) Regional investment bank EFG Hermes estimated that the Lebanese banking sector was the least risky among non-GCC MENA economies, as well as being one of the most attractive in the MENA region in terms of valuation based on 2008-2010 earning growth forecasts. Although Lebanon was assigned the lowest rating in the

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region on political and economic risk indicators, it was the least risky among non-GCC countries in terms of banking industry risks, which include barriers to entry, and overall regulation and legal framework. Lebanon also received the highest rating in the entire MENA region in the bank management category, which include entrepreneurial management and ability to expand. In addition, despite recent sluggish economic performance, the Lebanese financial system has proved extremely resilient to the political turmoil due to the banking sector's ability to grow its deposit base, EFG Hermes noted.

MOODY'S: LEBANON IS THIRD MOST SENSITIVE
TO INFLATION SHOCKS IN MENA REGION

¶12. (U) Moody's Investor Service's Inflation Sensibility Index ranked Lebanon as the third most sensitive country out of 11 surveyed MENA countries. The index measures the extent to which a country's vulnerability to inflation shocks could potentially damage its creditworthiness and sovereign ratings. It is an average of a country's rank in five indicators, GDP-per-capita in purchasing power terms, level of human development, fiscal balance, net government debt, and annual change in inflation rate.

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